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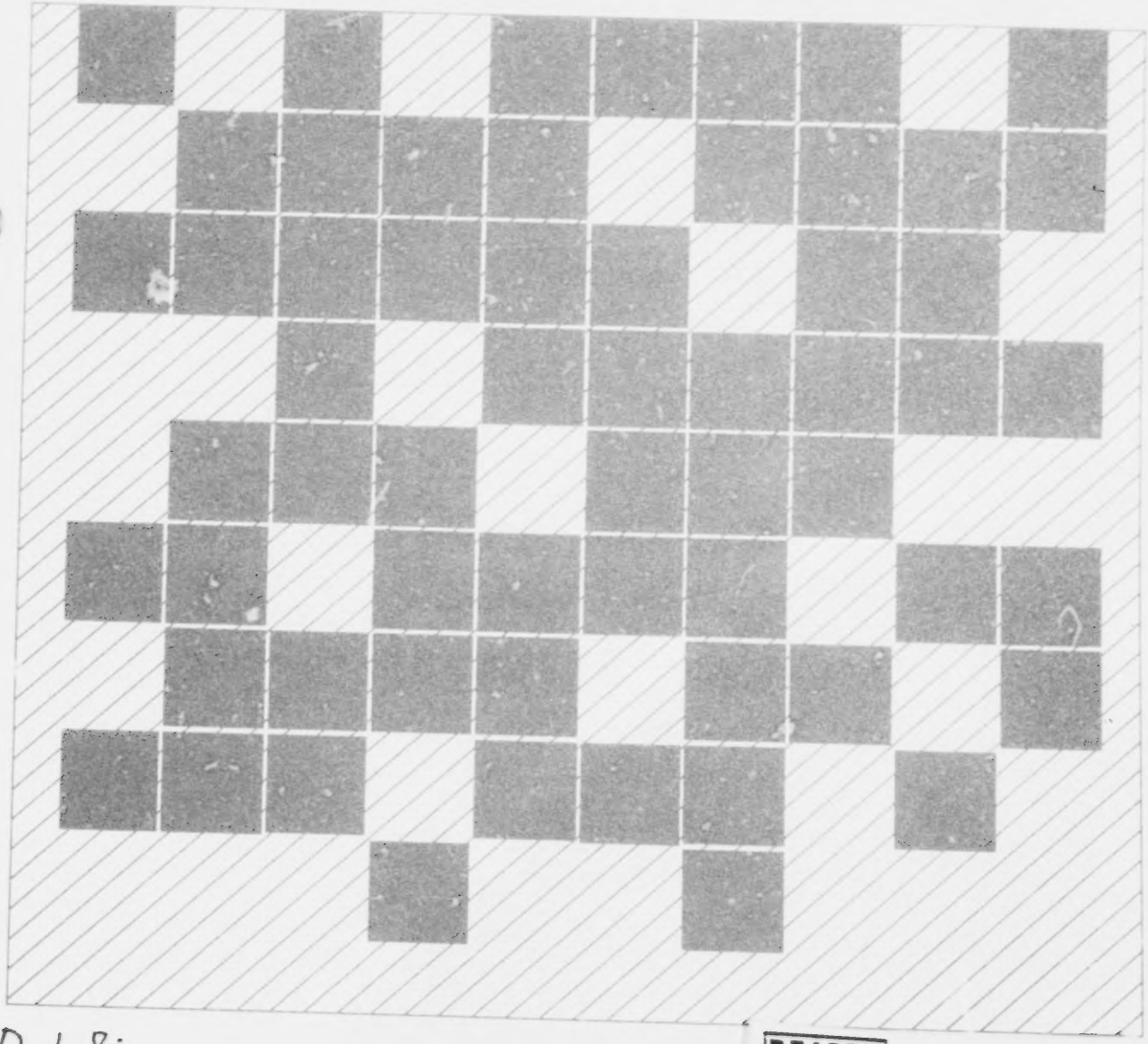
Lender Site Review Guide

A Guide for Guarantee Agencies That Review Lenders Participating in the Guaranteed Student Loan Program



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LENDER SITE REVIEW GUIDE

A guide for Guarantee Agencies That Review Lenders
Participating in the Part B Loan Programs

U.S. Department of Education
Office of Student Financial Assistance

SPRING 1989

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INTRODUCTION

This is the second edition of the Lender Site Review Guide. The Office of Student Financial Assistance (OSFA) has updated the site guide by incorporating or referencing recent programmatic changes. This guide also provides additional guidance where experience has indicated it is needed. Significant changes found in this edition of the Lender Site Review Guide are listed below.

- Throughout this guide, the programs authorized under Title IV, Part B, of the Higher Education Act of 1965, as amended, will be collectively referred to as the "Part B Loan Programs. These programs are:
  - The Stafford Loan Program (formerly the Guaranteed Student Loan (GSL) program);
  - The Supplemental Loans for Students Program (SLS);
  - PLUS; and
  - The Consolidation Loan Program.
- There are two new Chapters, "Sample Selection" and "Core Items".
- Several chapters have been expanded in response to requests for additional information. They are: "Fraud and Abuse", "The Written Report", and "Closing The Review".
- OSFA Regional Institutional Review addresses, Reviewer's Checklist and Lender Fraud and Abuse indicators were added to the Appendix.
- For ease of reference, the footnotes were moved from the bottom of the page and made into text notes. We have abbreviated the notes by deleting the reference to 34 CFR, to which they all refer.

Preface:
Purpose of The Site Review Guide

Lenders participating in the Part B Loan Programs must comply with requirements as contained in the Part B Loan Program regulations [34 CFR 682, Subparts B,C,D,&F]. Also, each guarantee agency "shall take such measures and establish such controls, as are necessary to ensure its vigorous enforcement of all Federal, State, and guarantee agency requirements...." [682.410(c)]. This means that a guarantee agency must conduct, at a minimum, comprehensive biennial on-site program reviews of its ten largest participating lenders plus any lender whose loan volume equalled or exceeded 2% of all loans guaranteed by the agency in the preceding year. Lenders are required to cooperate and guarantee agencies are required to enforce program requirements [682.414(c)(2)]. A guarantee agency may want to coordinate its review of a lender with another agency when that other agency is required to review the same lender.

An agency may conduct a joint review of a lender with another agency or establish a reciprocal agreement with another agency. Under a joint review, each participating agency is responsible for the quality of the review. Under a reciprocal agreement, the agency conducting the review is responsible for the quality of the review. We recommend that all reciprocal agreements state that the performing agency will conduct the review in accordance with the Office of Student Financial Assistance (OSFA) Lender Review Site Guide and that any unique requirement of the reciprocating agency will be included in the review.

The U.S. Department of Education recognizes there is limited time available to spend during an on-site review. It also recognizes that many guarantee agencies already use operational manuals to review their own forms, systems, and procedures; they are encouraged to continue using those materials. However, in the interest of standardization, the Department of Education has developed this review guide to identify certain minimum standards, or "Core Items," as defined by OSFA that should characterize a program review.

This guide is not a complete manual of procedures but a foundation to be built upon, with additions as needed. This guide is not intended to supplant the reviewer's judgment of work required based upon the reviewer's level of program knowledge concerning the Part B Loan Programs and the

reviewer's knowledge of the lender being reviewed. Furthermore, the guide is based on current regulatory and statutory requirements.

Due to time constraints, the reviewer should focus on the lending institution's control systems. The reviewer should keep in mind that the General Accounting Office requires an internal control system to reasonably assure that the following objectives are achieved:

1. A plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies.

2. Resources are safeguarded against waste, loss, and misuse.

3. Reliable data are obtained, maintained, and accurately disclosed in reports.

The reviewer should test various program areas to determine that not only are internal controls being relied on, but that they are also operational. This site review guide will identify the areas to be reviewed.

PART ONE

ORGANIZING THE REVIEW

These two chapters address preparing for the Review and conducting the Review

CHAPTER ONE: IN-HOUSE PREPARATION

Pre-Review Planning

Adequate planning increases the reviewer's on-site efficiency. Prepare for the on-site visit by:

1. Accumulating and analyzing data;
2. Formulating a work plan;
3. Determining the number of reviewers needed based on the length and scope of the review;
4. Coordinating with other agencies, as needed; and
5. Distributing the review tasks among the reviewers.

Letter to Lending Institution

Send a confirmation letter to the appropriatelending institution official stating that you need to meet with:

--the student loan officer,
--accounting personnel,
--the internal auditor,
--systems or programming personnel,
--collection personnel, and
--servicer, if applicable.

Emphasize that it is imperative that they, or their representatives, be available during your visit. The confirmation letter should state the scope of the review and the need for any specific reports or documents necessary to perform the review. Also indicate that the review will begin immediately following the entrance interview.

Identify Mergers

The current trend of regional banking has resulted in name changes, purchases, sales, and mergers (including both intrastate and interstate). This trend has also led to internal mergers, that is, centralization of loan servicing operations by the holding company or collapsing branches under one main operation. This may affect the administration of the Part B Loan Programs portfolios in one of the following ways:

Effects of Centralized Loan Servicing

-- The portfolios remain intact.

-- The portfolios are merged and administered under original lender identification numbers or one identification number.

-- In-school accounts may be administered under original lender identification numbers while accounts in repayment are administered under another identification number.

Sources

It is important for the reviewer to identify any merger activity by contacting various sources such as:

-- the State Banking Commission,

-- the ED Regional Office, and

-- the lender(s) involved.

Merger Dates

Also, it is important to ascertain merger dates in order to follow an audit trail, especially to reconcile interest billing activities.

Identify Servicers

Many lenders and holders of Part B Loans have contracted with a servicer because of the program's complexity and increased secondary market sale activity. Although the responsibility of proper loan administration still rests with the lender, it is usually necessary to work through the servicer for reviewing loan records and/or accounting figures. Therefore, the reviewer should coordinate with the servicer. With the introduction of a servicing arrangement the reviewer must adjust the review process. (See Chapter Seven)

Research In-House Statistics

Develop a comprehensive profile of the lender using in-house resources including:

* **Default claims** -- Determine your agency's default claims history for the lender. Consultation with the claims manager, or other staff, may reveal significant causes such as high staff turnover or poor documentation of due diligence.

* **Loan volume** -- Determine the disbursement trends which may indicate decreasing or increasing program participation. Low volume of loans outstanding but high disbursement rates could indicate sales activity.

Research In-House Statistics (cont'd)

* **Loan application reject rates and reasons** -- Be alert to any significant trends reflecting poor management at the application processing stages.

* **Training attendance** -- Note the frequency of attendance at recent training seminars or workshops and any staff turnover problems.

* **Pre-Claims cure rate** -- Determine cure rate for lender. A high cure rate may indicate a limited effort on the part of the lender in its collection practices.

* **File sample** -- Identify a sample for file review. The sample should include accounts within the following categories:

  - enrolled,
  - withdrawn,
  - grace period,
  - repayment,
  - deferment,
  - defaulted,
  - forebearance, and
  - claims (to be filed and returned or rejected).

Note: If doing a joint or reciprocal review, information possessed by each guarantee agency must be taken into consideration.

The use of statistical sampling techniques is recommended for reviews which may require extrapolation.

Check Reviews and Audits

Contact the appropriate OSFA Regional Office to determine the dates of the most recent review and/or audit conducted. ["Appropriate OSFA Regional Office" is defined as that regional office serving the state in which the guarantee agency is located.] Request a copy of the report(s) if they are not already on file with agency. Consult with the reviewer/auditor as necessary. (Lists of ED Regional Offices for OSFA and OIG/Audit are included in the Appendix.)

Determine Fraud and Compliance Problems

Contact the OIG Regional Office and consult with an investigator concerning any preliminary or final findings regarding the lender. Also inquire about any student or school complaints concerning the lender. (Lists of ED Regional Offices for OIG/Investigations are included in the Appendix.)

Review Lender's Annual Call Report

The lender should submit complete and accurate reports in a timely manner once a year.

* **Sales and purchases** -- Review and determine reason, i.e., secondary market participation or merger activity. Identify date(s) of sale(s) and reconcile with general ledger and billing reports.

* **Fiscal year disbursements** -- Make note to compare with lender's documentation for origination fees. Reconcile with disbursements reported on the four quarterly billing reports for the same fiscal year.

* **In-School and repayment figures** -- Reconcile with agency figures.

* **Past due accounts** -- Determine delinquency rates for each aging category.

* **Claims payments** -- Reconcile with agency figures.

* **Total loans outstanding** -- This figure should reconcile with total general ledger figures and total special allowance balances.

Review Lender Search "Pay History" Report

The U.S. Department of Education can provide a report showing all Federal interest billing requests and resulting payments. All figures the lender submits on its ED 799 and Addenda are included. Contact the appropriate OSFA Regional Office for the proper ordering procedure. Reviewers will need to provide the lender's identification number including any old merged numbers and allow three weeks for delivery.

Upon receipt the reviewer should examine:

* **Disbursement patterns** -- As indicated by origination fees paid.

Review Lender Search "Pay History Report" (cont'd)

* **Ending balance patterns** -- To determine sales activity.

* **Full subsidy adjustments** -- These may indicate late repayment conversion adjustments.

* **Special allowance balances**, by interest rates: These should exceed full subsidy balances. Should they be identical, the following may be taking place:

  - No repayment loans,
  - Billing full subsidy on both interim and repayment accounts, or
  - Not billing special allowance on repayment accounts.

* **Accuracy of average balances** -- For lenders using the average quarterly balance method of billing. The average quarterly balance is not to be used beginning with the quarter ending September 30, 1988.

CHAPTER TWO:
SAMPLE SELECTION

Select Sample

The following steps outline procedures for sample selection and, if warranted, file reconstruction.

Prior to each program review, the program reviewer should select a sample of files which will be used by the reviewer to determine a lender's compliance with applicable law and regulations.

When preparing to conduct the program review, the reviewer should determine the time period which will be examined during the review. This time period should also be stated in the scope of the review in the confirmation letter. Normally this time period is two years.

Using guarantee agency records, the reviewer should identify the population of loans guaranteed for the lender for the review period. From this population of loans, the reviewer should select a sample of 30-50 loans to be examined. The reviewer may use any statistical sampling technique that the agency deems appropriate. A random sample is to be used with any technique chosen. The ED publication, "Statistical Sampling Handbook for Student Aid Programs", published Winter 1984, contains useful information for computing samples.

When on-site, the program reviewer should review the files of the loans selected in the sample. If the reviewer encounters a specific problem in the sample, (e.g. late conversion to repayment), which occurs with a frequency greater than 10 percent, the lender should be directed to review all of its files for that discrepancy for the review period. If the reviewer has reason to believe that the problem occurred prior to the scope of the review, the reviewer should direct the lender to review its files for the earlier period.

File Review (cont'd)

The reviewer may find it necessary to select a judgmental sample to gather more information on a specific problem area. Under those circumstances, the reviewer may depart from using scientific sampling techniques.

If a 100 percent file review becomes necessary, the reviewer should closely monitor the progress of that file review by establishing precise deadlines and time tables for the file review work. Depending on the complexity of the work, a lender may be allowed up to 90 days to complete the file review. The lender should provide the reviewer with periodic progress reports.

If the number of files to be reviewed is large, the lender may also be given the option of using a statistical sample. The sample size should provide a confidence level of 95 percent and the results of the review should be certified by an independent certified public accountant.

There may be instances when the reviewer knows in advance that the lender has specific problems. In these instances, the reviewer may want to conduct a review using a scientific sample from which the results can be extrapolated with a high degree of confidence.

When the file review is completed, the lender must report the results of the review to the agency. This will be the basis of assessing a liability against the lender.

CHAPTER THREE:
THE ENTRANCE INTERVIEW

1. Explain the scope and purpose of the review.This should be consistent with the scope of the review as contained in the confirmation letter.

2. Explain to the lender its responsibility to establish and maintain proper administrative and fiscal procedures and all necessary records to protect the rights of student and parent borrowers and protect the United States from unreasonable risk of loss. This includes keeping, with ready access, accurate records of each loan held in order to verify the accuracy of its reports or the lender's compliance with the law and applicable regulations [682.414].

3. Emphasize that due to limited time constraints, the review cannot be all inclusive but this does not preclude the lender's obligation to comply with all applicable Federal, State, and guarantee agency regulations.

4. Obtain the names and locations, including telephone extensions, of various staff members with whom the reviewer will be working.

5. Request that the administrator give an overview of the institution and its Part B loan programs procedures including servicers, secondary market activities, and other guarantors.

6. Inform the lender official of subsequent review procedures, such as expected time for issuance of review reports and the lender's responses.

8. Schedule the exit interview and arrange for staff attendance, as needed. Explain that the findings and recommendations will be discussed during this time.

9. Explain that the review is also for the purpose of identifying training needs and providing technical assistance, time permitting.

PART TWO

Conducting the Review

Immediately following the entrance interview the reviewer should begin the on-site review process by drawing the pre-selected, random sample of borrowers for the review. The following chapters also address the different types of lender reviews, such as school lenders, servicers, and secondary markets, as well as the content to cover during any type of lender review.

CHAPTER FOUR: CORE ITEMS

Core Items

The Office of Student Financial Assistance has developed a list of core items to be included in a comprehensive lender program review.

The Core Items are:

1. Interest billing
2. Special allowance
3. Loan origination fee
4. Due diligence
5. Loan servicing
6. Student status control
7. Timely filing
8. Loan sales

Checklist in Appendix J

Appendix J contains a checklist for the reviewer to ensure that these core items are examined. It is intended to be a quick reference guide to the areas essential to a comprehensive review.

CHAPTER FIVE:
OVERVIEW OF THE LENDER'S SYSTEM

Determine Lender's Policies, Procedures and Internal Controls

The reviewer should determine the lender's policies, procedures, and internal controls with respect to the following:

* **General ledger categories** -- Determine if loans are broken down by in-school and repayment, and by interest rates.

* **Trial balance format** -- Determine categories, frequency of reports, and availability (hard copy or microfiche).

* **Student status tracking** -- Determine how the lender responds to student, school, or guarantee agency student-status information.

* **Repayment conversions** -- Determine the use of automated or manual tickler card system and staff responsible for conversion, that is, student loan officer or collection personnel.

* **Interest billing systems** -- Determine procedures and identify needed reports.

* **Disbursements** -- Identify needed reports including origination fee reports.

* **Claims processing** -- Determine procedures and identify personnel.

* **Collections** -- Determine procedures and identify needed delinquency reports.

* **Records retention** -- Determine that the lender retains complete and accurate records for each loan for not less than five years following the date the loan is repaid in full by the borrower or the lender is reimbursed on a claim [682.414 (a)(3)(iii)].

Determine Lender's Policies, Procedures and Internal controls (cont'd)	*	Prohibited transactions/practices -- Determine that the lender does not offer, directly or indirectly, any inducements to schools or individuals to secure applicants for loans. This is prohibited under 34 CFR 682.212 of the Part B Loan Program regulations, and Section 435(d)(5) of the Higher Education Act.

CHAPTER SIX: SCHOOL LENDERS

Schools as Lenders

Guarantee agencies must provide that, under reasonable criteria, a school may be a lender in its program [682.405(e)(5)]. Agencies must report school lenders to ED [682.414(b)(3)].

Additional Criteria for Reviewing School Lenders

School lenders must be reviewed using the same criteria as other lenders. However, there are additional aspects to be reviewed:

* **Agreement** -- The school that makes or originates loans must have an agreement containing the following items [682.601].

  -- Loans cannot be outstanding to, or on behalf of, more than 50% of the undergraduates at the school.

  -- Evidence of loan denial by a commercial lender must be provided by first-time borrowers.

* **Claims** -- Claims submitted by a school lender must be reduced by any refund due the student, if not already made. If such a deduction is necessary, then it probably constitutes a late refund or attribution payment and the school may be liable for payment of a fine. Also, if a school lender terminates its teaching activities during the loan period then a pro-rata claims deduction should be made.

* **Termination of lending eligibility** -- The reviewer should refer to 34 CFR 682.608(b) to apply the formula used in calculating the school lender's default rate. School lenders reaching a 15% limit on loan

Additional Criteria for Reviewing School Lenders (cont'd)

defaults may be terminated by the Secretary after being afforded an opportunity for a hearing.

CHAPTER SEVEN: DUE DILIGENCE

Requirement for Due Diligence

The guarantee agency must establish, disseminate, and enforce standards and procedures for the exercise of due diligence by lenders in making, servicing, and collecting loans in accordance with its Basic Program Agreement [682.401(b)(10)]. The reviewer must determine the propriety and adequacy of the lender's due diligence efforts [682.206,.207, .208,.411]. Usually, this requires reviewing the pre-selected random sample of borrower files and following the loan through its various life cycle stages. The sample should be statistically valid in order to extrapolate the results when necessary.

The six life cycle stages of the loan which should be reviewed in-depth are as follows:

1. In-School period
2. Grace period
3. Repayment period
4. Authorized deferment
5. Forbearance
6. Claims

First Stage

IN SCHOOL PERIOD

LOAN DISBURSEMENT CHECKLIST

Loan disbursement -- Determine compliance in the following areas:

- Proper loan amount.

- Proper interest rate.

- Loan proceeds to the school and not earlier than 30 days prior to the student's scheduled enrollment date and also not before issuance of a guarantee [682.207(b)].

First Stage (cont'd)

- Disclosure requirements must accompany the promissory note and a statement of the borrower's rights and responsibilities [Higher Education Act, Section 433].

- Credit Bureau reporting--loan must be reported to at least one credit bureau [682.208(b) and the Higher Education Act, Section 430 A].

- Multiply disbursed loans--the following rules apply:

  * Before July 1, 1986 (Budget Reconciliation) when a lender had an agreement with ED, the lender could bill full subsidy on the undisbursed portion.

  * Since July 1, 1986 loans are required to be multiply disbursed for loans of $1,000 or more for periods of enrollment of six months or longer. No subsidy is payable on the undisbursed portion.

  * Since October 1, 1988 SLS loans must be multiply disbursed.

  * The loan is made when the first disbursement is made. Therefore, in the case of Gramm-Rudman loans, the second disbursement must be included in the remaining quarters with the first disbursement for special allowance purposes. This is important for second disbursements made after September 30, 1986; such loans are included in a reduced special allowance category, as well as being liable for the applicable 5.5% origination fee.

Insurance premiums -- Applications signed by the borrower on or after July 1, 1987 carry a maximum insurance premium of 3% of the principal amount of the loan. Prior to this, the maximum was 1% per annum, calculated per guarantee agency policy. The insurance premium must be deducted pro-rata from each disbursement.

Origination fees -- These must also be deducted pro-rata from each disbursement. The following rules apply:

- No origination fee is payable on non-subsidized Stafford loans, PLUS/SLS or Consolidation loans.

- Origination fee amount is 5% of the loan amount disbursed.

- Loans having a first disbursement between March 1, 1986 and September 30, 1986 carry 5.5% origination fee (Gramm-Rudman).

- Loans cancelled, paid in full within 120 days, or checks not cashed within 120 days of disbursement are not liable for an origination fee. Adjustments may be made on the ED 799 or Addendum.

Student status information -- Procedures must be in place to track student status and respond to guarantee agency or school reported information in a timely manner.

GRACE PERIOD *Second Stage*

Depending on the interest rate of the loan, the borrower is allowed a grace period.

Loans at 7% or less -- 9 to 12 months following the date on which the borrower is no longer at least a half-time student.

Loans at 8% and 9% -- 6 months following the month in which the borrower is no longer enrolled in a participating school on at least a half-time basis.

Note: The grace period months must be consecutive, that is, if partially used and the borrower returns to a participating school on at least a half-time basis, then a full grace period must be offered again before repayment begins. The only exception is if the borrower wishes to waive the grace period [682.209(a)(4)].

Also, students receiving loans made before October 1, 1981 are entitled to receive a post-deferment grace period of 6 months after each deferment period [682.210(a)(2)]. **One exception:** Only one post-deferment grace period is allowed a borrower who receives a portion of the 24-month "unemployment deferment". Grace periods must always be used first before a deferment can be granted.

Third Stage

REPAYMENT PERIOD

The repayment period begins at the expiration of the grace period or resumes at the end of an authorized deferment period which is not eligible for a post-deferment grace period. Normally, the first payment due will be one month later. The reviewer should determine compliance in the following areas:

Criteria for Repayment Compliance

Conversion to repayment -- Must be timely so as not to overbill for full subsidy interest benefits.

Capitalization -- Accrued interest may be added to the borrower's unpaid principal balance depending on guarantee agency policy [682.202 (b)]. This may be done on a monthly or quarterly basis for PLUS/SLS loans. Stafford loans which are in school, grace period, deferment, or forbearance may be capitalized no more frequently than once a year. However, in the case of a conversion to repayment, accrued interest may be capitalized only on the date repayment of principal actually begins [682.202(b)(2) and (3)].

Late charges -- If authorized by the borrower's promissory note, such charges cannot exceed 6% of the past due amount which is 10 days overdue [682.202(e)].

Prepayments -- The borrower has the right to prepay all or part of the loan at any time, without penalty [682.205(b)(9)]. Such payments must be applied directly to principal unless the borrower requests posting to future installments [682.209(b)].

Refunds -- The lender must treat school refunds as a credit against the amount owed by the borrower [682.209(e)]. The lender should determine if the refund was made in a timely manner.

Terms of repayment -- The borrower is allowed between 5-10 years to repay the loan and generally must pay at least $600 per year. In the event the borrower and spouse have loans, the combined annual payment generally must be at least $600. Monthly payments may be rounded up

Criteria For Repayment Compliance (cont'd)

to the nearest $5 [Section 428(b)(1)(L) of the Higher Education Act].

15-year life of the loan--Loans no longer need to be paid in full within 15 years of disbursement [Section 428(b)(1)(D) of the Higher Education Act].

Rule of 78's -- Effective June 26, 1987 the lender shall not use this rule to calculate the outstanding principal balance of a loan [682.213].

Collections -- The guarantee agency must establish, disseminate, and enforce standards and procedures for the exercise of due diligence in the collection of loans [682.401(b)(10)]. If the borrower's promissory note so provides, the lender may charge certain collection costs [682.202(f)]. The loan is considered delinquent on the first day after the due date of the first missed payment, or 30 days after the day the lender discovers that the borrower has entered the repayment period, whichever is later. At the minimum, the lender shall perform the required collection efforts as stated in 34 CFR 682.411. In certain cases gaps in due diligence may be covered in accordance with ED cure procedures.

Ineligible loan -- The lender, after learning that the borrower is ineligible for all or part of the loan, must send a final demand letter demanding payment in full within 30 days. Such payment must include the ineligible principal amount, plus accrued interest, all interest benefits, and special alllowance paid by the Federal government. In the event that the borrower pays this amount, the lender must adjust its next quarterly interest bill for the amount of the ineligible interest benefits. If the borrower does not pay, then the lender must refund ineligible interest benefits on the next quarterly bill. The lender may then file a claim for the unpaid principal and accrued interest of the entire loan [682.412].

Paid-in-full loan -- The lender must return the borrower's promissory note marked"paid-in-full." (A copy of the paid-in-full-promissory note must be kept by the lender for a period of five years.)

Fourth Stage

AUTHORIZED DEFERMENTS

After the repayment period begins, borrowers are entitled to have periodic installment payments of principal deferred during authorized periods. The borrower must request the deferment and provide the lender with all required documentation. The reviewer must ensure that:

- Deferments are not backdated more than six months, except in the case of unemployment deferments which may not be backdated more than 60 days.

- The borrower is not in default. Deferments are still allowed if the loan is delinquent. At the expiration of the deferment, the borrower would resume any delinquency status that existed prior to the commencement of deferment.

- The deferment ends on time and the lender stops billing full subsidy on the deferred loan(s). Repayment must begin or resume after the expiration of the deferment, or post-deferment grace period, if applicable.

Note: As mentioned earlier, the grace period must be used before the deferment period begins.

- The borrower is receiving an authorized deferment only as allowed under 34 CFR 682.210 and Section 428(b)(1)(M) of the Act.

Fifth Stage

FORBEARANCE

In order to prevent default, lenders are encouraged to grant forbearance, as authorized by agency policy and 34 CFR 682.211. The following requirements must be adhered to:

Forbearance Follow-up

* Forbearance agreements must be in writing and signed by the lender and borrower and kept in the borrower's loan file.

* A forbearance should not be granted unless the lender reasonably believes the borrower intends to repay the loan. A forbearance may be granted for up to one year.

Forbearance Follow-up (cont'd)

* If the forbearance involves postponement of all payments, the borrower must be contacted at least once every three months as a reminder of the obligation to repay.

* The Federal government may not be billed for the full subsidy on loans in forbearance. The interest may be paid periodically or capitalized as allowed by guarantee agency policy.

Sixth Stage

CLAIMS

There are five categories of claims--default, death, total and permanent disability, bankruptcy and special conditions. A loan is generally considered in default at 180 days past due for a loan repayable in monthly installments, and 240 days past due for a loan repayable in less frequent installments.

In order to receive a claim payment, the lender must at least:

* Exercise due diligence in making, servicing, and collecting loans as prescribed by the agency, and Federal law and regulation.

* File a claim in a timely manner as follows:

  - Within 90 days of default.

  - Within 60 days of determining death or total and permanent disability.

  - Within 30 days after the lender receives a notice of the first meeting of creditors in a borrower's bankruptcy proceeding.

  - As directed by the guarantee agency in the case of a special condition claim.

* Exercise due diligence in the collection of the loan [682.406].

* Adhere to the requirements for death, total and permanent disability, and bankruptcy claims [682.402].

CHAPTER EIGHT: SERVICERS

Servicers

The complexity of the Part B Loan Programs, along with increased secondary market participation, has resulted in the increasing use of student loan servicing by outside service agencies called "servicers." While the legal holder is ultimately responsible for the administration of the loan portfolio, it is still necessary to visit and review the servicer. Names of clients and loan volume should have been determined during the preparation stage. Any special permission from the lender, as may be required by the servicer, should be obtained prior to the visit. The lender, or its agent, must give the guarantee agency access to the lender's records [682.414(c)(2)]. The guarantee agency must be able to verify the accuracy of information provided by the lender to determine the amount of interest and special allowance payable by ED [682.401(b)(12)].

Additional Steps For Working With Servicers

Although very similar to the typical lender review, the nature of servicing necessitates additional steps:

Review systemic procedures and internal controls -- The servicer should describe procedures and identify needed reports. Be certain to examine the accuracy of accruals and average daily balance computations.

Review accuracy of dates of transmitted data -- The servicer is constantly reacting to data received from the lender, schools, students and secondary markets. Specific areas to examine for accuracy include:

- Loan disbursement data -- verify accuracy of loan disbursements, check cancellations and returned checks.

- Student status -- the servicer must update in a timely manner and make any necessary

Additional Steps Working With Servicers (cont'd)

adjustments to interest accruals due to loan repayment conversions, deferment, etc.

- o Sales -- loan sales must be credited and posted to student accounts as of the date the lender receives the sale proceeds.

- o Claims paid/reject date and loans paid in full must be date-specific according to lender receipt date.

- o Collection receipt date -- accounts must be posted as of lender receipt date or lock box receipt date.

- o School refunds and attribution payments -- determine if the servicer can readily identify school refunds and attribution payments which are received. If so, research the timeliness of the refund or attribution payment and follow-up with school(s) as necessary.

Review interest billing -- Depending on the servicing agreement, this function may be performed in one of two ways:

- o Completion by the servicer -- the servicer may be preparing the bill including signing and submitting. If so, determine accuracy.

- o Completion by the lender -- the lender may prepare the bill in-house based upon figures generated by the servicer. This could include only interim loans or both repayment and interim loans. Usually, the balances must be reconciled to account for loans in transit between the lender and the servicer.

CHAPTER NINE: SECONDARY MARKETS

Secondary Market Procedures

The reviewer should determine the extent the lender participates in secondary markets. Purchasers of loans include national, regional, and State secondary markets as well as other lenders.

The reviewer should:

* Identify purchasers and loan volume.

* Determine that the loan sale was removed from the seller's loan balances used to bill for interest and special allowance on the date of the wire transfer or on the date the check was received.

* Determine that origination fees have been paid by either the seller or buyer.

* Check to see that the borrower has been notified of the sale. (Start skip-tracing if letter is returned.)

* Verify that there is no duplicate billing for interest and special allowance on the part of either party.

* Identify the servicer(s) used and follow the transition from lender servicing to secondary market servicer.

* In the event that tax-exempt funds are used to make or purchase the loans, and that those loans were made or purchased during the applicable periods of time, verify that the lender bills for only one-half of the special allowance rate by using the unique Federal interest billing form designed for use by tax-exempt holders.

CHAPTER TEN: MERGERS

The reviewer should already be in possession of information pertaining to merger activity. It is important that an audit trail exists in order to trace this activity.

The following areas should be researched:

Track Mergers With an Audit Trail

* The reviewer should **identify any lender name changes** and compare to information obtained during the in-house pre-review preparation stage.

* Remember to order a "Lender Search Report-Pay History Subsystem" for each applicable lender.

* Mergers can include different banks merging or one bank centralizing branch or subsidiary operations. The reviewer must **follow an audit trail** to determine dates and loan volume of merger and/or centralization activity.

* The reviewer should check that **loan volume reconciles with the general ledger** or a trial balance and verify that both the Federal interest bills and Annual Call reports accurately reflect the activity.

CHAPTER ELEVEN: FRAUD AND ABUSE

A guarantee agency "shall take such measures, and establish such controls, as are necessary to ensure its vigorous enforcement of all Federal, State, and guarantee agency requirements applicable to its loan guarantee program" [682.410(c)]. This includes at least the following actions guarantee agencies must take:

Identify

* Adopt procedures for identifying fraudulent loan applications.

Investigate

* Undertake, or arrange with State or local law enforcement agencies, the prompt and thorough investigation of all allegations and indications of criminal or other programmatic misconduct.

Report

* Report promptly report to the OIG for Investigation:

  -- all allegations and indications of fraud and abuse having a substantial basis in fact; and,

  -- the scope, progress, and results of the agencies' investigations.

Refer

* Refer appropriate cases to State or local authorities for criminal prosecution or civil litigation.

Detect Fraud and Abuse

The following steps summarize methods which may be used by the reviewer to identify errors and irregularities which may be indications of fraud and abuse. A reviewer should:

- Establish and follow sound review procedures.

Detecting Fraud and Abuse (cont'd)

- Establish and follow sound review procedures.
- Use normal review procedures to identify errors and irregularities.
- Follow up on any patterns of error or high frequency of irregularity. These irregularities could be the first indications of fraud and abuse.
- Gather as much information as needed to document these instances of potential fraud and abuse.

Use Care When Documenting Abuse

When the reviewer has gathered enough information or documentation to be reasonably certain that fraud and/or abuse has occured he/she should not question, interview nor alert the suspected abuser(s) about the questionable matter.

- Use professional judgement and due care relative to illegal acts so as not to interfere with present or future investigations. Due care would include consulting appropriate legal counsel and/or the applicable law enforcement agency where appropriate to determine what procedures should be followed.
- Attempt to obtain photocopies of questionable documents if possible without alerting suspected abuser(s).
- Report all information to the appropriate Regional OIG and OSFA Regional Office.

Warning Signals

A key factor in preventing and detecting fraud and abuse is the recognition of circumstances that frequently allow these practices to go unseen. The following examples of problems encountered during a review often help reviewers to identify potential fraud and abuse.

- Incomplete or missing documentation and authorizations;
- Unsigned documentation;
- Alteration of documentation;

Warning Signals (cont'd)

evasive or unreasonable responses to reviewers inquiries.

- Poor or sloppy record maintenance to conceal fraud or misuse.
- Inadequate reporting systems.
- Widely dispersed locations coupled by greatly decentralized management.
- Insufficient or inadequately trained staff relative to workload.
- Unusual increases in volume or activity.

Prohibited Inducements

The Higher Education Act prohibits eligible lenders and guarantee agencies from offering or paying certain inducements in connection with loans made under Title IV, Part B, of the Act. A violation of these provisions may result in the offender's disqualification from further program participation, and/or other sanctions. These provisions prohibit the direct or indirect offering or payment of any kind of financial incentive by a lender to any entity or person to secure applicants for Part B loans, or by a guarantee agency to a school or affiliated entities or individuals for that purpose, regardless of the form of the incentive or its mode of payment [(Inducements Prohibited Under The Stafford Loan, Supplemental Loans For Students, PLUS, and Consolidation Loan Programs 89-L-129. and 89-S-55)].

Special Pamphlet Available

The Inspector General for Investigations has published a pamphlet entitled "Special Fraud Alert". It includes a checklist of indicators to assist a reviewer in spotting potential fraud in student aid. A copy of this pamphlet as well as a list of regional offices for the Inspector General for Investigations is included in the Appendices.

CHAPTER TWELVE:
INTEREST AND SPECIAL ALLOWANCE BILLING

Access to Records

In addition to conducting thorough program reviews, a guarantee agency must require that lenders allow access to their records so that interest benefits and special allowances payable on the Part B loans can be verified [682.414(c), 682.401(b)(12)].

For this aspect of the review, the reviewer must understand:

- Part B Regulations, Federal Payments of Interest and Special Allowances, Subpart C;
- The 1986 Reauthorization Act;
- The 1987 Technical Amendments to the Act; and
- Public Law 100-369 (Coleman Bill).

(Appendix F contains an historical perspective of rate and formula changes.)

Eligibility Criteria and Allowable Methods

The reviewer must have a thorough knowledge of both eligibility criteria and allowable methods for billing full subsidy and special allowance. Due to a limited amount of time on-site, the reviewer must look for systemic problems affecting numerous quarterly interest bills.

This phase of the review is divided into five parts:

1. Billing eligibility
2. Allowable billing methods
3. Origination fees
4. Internal controls/reconciliation of figures
5. Sampling of common errors

Billing Eligibility

The reviewer must determine that only the following categories of loans are included in the full subsidy and special allowance sections:

Loans Eligible for Full Subsidy Interest Payment

Any subsidized Stafford loan that is:

- o In-school at least half time
- o In grace (six, nine or twelve months)
- o In a documented deferment category
- o In a six-month post-deferment grace category

Special Allowance Billing Eligibility

Any subsidized Stafford loan that is:

- o In-school loans;
- o Loans in grace;
- o Loans in deferment;
- o Loans in post-deferment grace;
- o Loans in forbearance;
- o Loans in repayment;
- o Loans delinquent less than 270/330 days;
- o Loans for which claim has been filed, if filed within 90 days of default; and
- o PLUS/SLS, Consolidation loans, if applicable.

LOANS NOT ELIGIBLE FOR SPECIAL ALLOWANCE

- o Non-subsidized loans disbursed after October 1, 1981;
- o Loans delinquent more than 270 days, and not filed as claim within 90 days after default;
- o Any other non-guaranteed loan;
- o Any loan that loses its guarantee or reinsurance; and
- o Any loan for which a claim has been denied.

Allowable Billing Methods

Allowable Billing Methods

The lender may use one of three methods to determine the amount of interest benefits payable on its loans:

-- Average Quarterly (Disallowed effective July 1, 1987 by 34 CFR 682.303 but reinstated by 1987 Technical Amendments, (P.L. 100-50) until July 1, 1988);

-- Average Daily; and

-- Actual Accrual.

Note: Only the average quarterly and average daily methods may be used for special allowance purposes. Only the average daily method will be allowed for spcial allowance purposes with the quarter beginning July 1, 1988.

Although 34 CFR 682.303 describes billing methods, the following examples are offered. The reviewer must determine that the lender's system is in compliance with these methods.

AVERAGE QUARTERLY BALANCE METHOD

Average Quarterly Balance Method

Lenders utilizing this method determine the actual, total unpaid principal balance eligible for interest subsidy as of the end (close of business on the last day) of the preceding quarter and add it to the actual ending unpaid principal balance for the current quarter. The average quarterly balance is derived by dividing the resulting total by two.

Formula

A = Ending principal balance as of the end of preceding quarter
B = Ending principal balance as of the end of current quarter
C = Average quarterly balance
D = Interest rate (7%, 8%, 9%)
E = Total interest due

$$\frac{A + B}{2} = C$$

$$\frac{C \times D}{4} = E$$

Example:

A = Actual ending principal balance 6/30 = 565,000

B = Actual ending principal balance 9/30 = 849,000

1,414,000

C = Average quarterly balance =

$$\frac{1,414,000}{2} = \$707,000$$

D = 7%

$$\frac{\$707,000 \times .07}{4} = \$12,372.50$$ Total Interest Due

Note: Effective with the quarter beginning October 1, 1988, the average quarterly method may no longer be used.

Average Daily Balance Method

AVERAGE DAILY BALANCE METHOD

Lenders utilizing this method must maintain daily principal balances outstanding (by category of interest rate) for all eligible loans. At the end of the billing period, the balances for each interest rate must be totaled and divided by the number of days in the period to determine the average daily balance.

Formula

A = Total of daily principal balances

B = Total number of days in the billing period

C = Average daily balance

D = Annual interest rate (7%, 8%, 9%)

E = Total interest due

Step 1: $\frac{A}{B} = C$

Step 2: $\frac{(C \times D \times B)}{365} = E$

Average Daily Balance Method (cont'd)

Example:

A = $250,000
B = 91 days
D = 7%

Step 1: $\frac{\$250,000}{91}$ = $2,747.25 Average Daily Balance

Step 2: $\frac{\$2,747.25 \times .07 \times 91}{365}$ = $47.95 =Interest Due

Quarter Ending	Number of Days
March 31	90
June 30	91
September 30	92
December 31	92

Note: Lender payments are calculated by ED based upon a 365-day year, excepting leap years which are calculated at 366 days (91 days in the quarter ending March 31). A lender who chooses instead to use 365.25 days must do so for four consecutive years. [See Dear Colleague letter dated March 1989, 89-L-131]

ACTUAL ACCRUAL METHOD

Actual Accrual Method

Lenders utilizing this method must determine for each interest rate category the exact amount of interest accrued during the billing period for each loan eligible for the interest subsidy, based on the number of days in the period for which the actual unpaid principal amount of the loan was eligible for the interest subsidy. The total interest to be billed for the period is the sum of the individual interest calculations.

Formula

A = Actual unpaid principal balance of loan
B = Interest rate (7%, 8%, 9%)
C = Number of days outstanding at that amount

Interest due $\frac{A \times B \times C}{365} = D$

Example:

1,000 x .07 x 91 divided by 365 = 17.45

2,500 x .07 x 60 divided by 365 = 28.77

1,250 x .07 x 30 divided by 365 = 7.19

$53.41

(Total Interest Due)

Quarter Ending	Number of Days
March 31	90
June 30	91
September 30	92
December 31	92

Note: Lender payments are calculated by ED based upon a 365-day year, excepting leap years which are calculated at 366 days (91-days in the quarter ending March 31). A lender who chooses instead to use 365.25 days must do so for four consecutive years.

Applicable Origination Fees

ORIGINATION FEES:

The amount of interest and special allowance payable to the lender is reduced by the amount of origination fees the lender is authorized to collect on subsidized Stafford loans disbursed during the quarter [682.304(a)(2)]. In the event of a loan sale, either the maker or new holder may report the fees collected. Both parties are jointly and severally liable for payment of the origination fees.

The reviewer must examine the internal controls used to identify loans disbursed to ensure that all fees are paid. It is normally more difficult to follow an audit trail of the fees if they are taken as income upon disbursement rather than held as an account payable until such time as the quarterly interest bill is paid.

Two Applicable Origination Fees

There are two applicable origination fees:

* **Loans with 5% origination fees:** loans with a first disbursement before March 1, 1986 and on or after October 1, 1986.

Two Applicable Origination Fees (cont'd)

* **Loans with 5.5% origination fees:** loans with a first disbursement from March 1, 1986 to September 30, 1986.

Note: It is important to determine that the second disbursement of a 5.5% origination fee loan is reported as a 5.5% origination fee loan even though it may have been made after September 30, 1986. The terms of subsequent disbursements on a loan are determined by the terms of the initial disbursements. For a multiply disbursed loan, a reduction of special allowance is applicable only for the first four billing periods following the date of the first disbursement.

This is an important phase of the interest billing review since an accurate amount must be deducted from the lender's quarterly interest bill. One reconciliation feature would be to compare the lender's disbursement figure as reported on line 2, "new loans disbursed" of the Annual Call Report, to the total disbursements indicated on the four quarterly interest bills and addenda for the same fiscal year.

Internal Controls Reconciliation of Figures

INTERNAL CONTROLS/RECONCILIATION OF FIGURES

The reviewer must reconcile internal lender figures with those used in the completion of the Federal interest bill. This is the backbone of the review since the lender is required to document its procedures. The following internal controls should be in place in order for the reviewer to establish an audit trail and determine compliance with program regulations:

- o One general ledger figure for all student loans;
- o Trial balance for proving figures;
- o Subcontrols for all rates and special allowance categories;
- o New loan disbursement controls for origination fees;
- o Origination fee accounting;

Internal Reconciliation of Figures (cont'd)

- o Principal balances only
- o Tracking on a date-specific basis:
  - --Loans in transit to servicer
  - --Accurate sale and claims payment dates
  - --Student status controls
  - --270 days past due accounts
  - --Deferments and forbearance

In addition, it is valuable to reconcile the payment received by the lender to the figures included on the interest bill, especially when an adjustment is included. The worksheet contained in Appendix H can be used for this purpose along with the Special Allowance rates contained in Appendix G.

Reconciliation With Call Report

RECONCILIATION WITH CALL REPORT

The reviewer should reconcile Call Report data to:

1. Disbursements origination fees
2. Loan Sales
3. Interest and Special Allowance billing for the same period
4. General Ledger

Loans over 270 days past due for which no claim was filed, and loans which have lost their guarantee are removed from the Call Report.

Common Errors

SAMPLING OF COMMON ERRORS

There are many sets of regulations, each relating to different time periods, for Federal interest billing, and there are countless numbers of systems used by lenders to comply with these regulations. The reviewer's technique can only be formulated and refined through the experience of understanding many accounting systems. It may be worthwhile to identify some common errors of lenders that have been observed in the conduct of many program reviews. The reviewers should be familiar with these common errors and make a determination as to whether they apply to the review in progress.

Full Subsidy Section

Full Subsidy Section

- o Billing on loans in repayment
- o Billing past the interim loan maturity date
- o Failure to use a 365-day factor, or 365.25 or 366, if applicable, for actual accrual method and actual number of days for average daily method
- o Failure to include loans in deferment
- o Using same rate/factor for all line items
- o Billing for PLUS/SLS loans

Special Allowance Section

Special Allowance Section

- o Incorrect splitting on a before and after October 1, 1981 basis
- o Billing on gross balances (including unearned discount)
- o Not including all loan categories for special allowance payment--interim, deferment, repayment
- o Incorrect averaging for first-time interest rate
- o Total of special allowance ending balance does not prove to Call Report, line 12
- o Billing for loans that are more than 270 days past due
- o Transposing ending and average balances
- o Duplicate billing, including loans in more than one special allowance section
- o Billing for claims that were denied by the guarantee agency
- o Billing for loans that were denied by the guarantee agency

Both Sections

Both Sections

- o Using an average monthly method
- o Billing on ending balances only
- o Incorrect averaging, e.g., adding current ending balance to prior average
- o Using inaccurate sale date, claim paid date, claim reject date, or paid-in-full date
- o Billing beyond 120 days on uncashed checks
- o Not checking all applicable blocks on the ED 799 and Addenda

Origination Fee Section

Origination Fee Section

- Backing into disbursement figure from "fees collected" figure

- Total of line 1, "loans disbursed, for four quarters", does not prove to Call Report, line 2, "new loans disbursed"

CHAPTER THIRTEEN: LIABILITIES

Repayment of Retained Funds

Noncompliance by lenders and other program participants can lead to funds being owed the Federal government. Reviewers must seek prompt repayment of all improperly retained funds found during review. A lender must correct violations which occurred prior to the scope of the review or prior to the effective date of 34 CFR 682.410 (c). A lender must also repay all liabilities which occurred both prior to and within the scope of the review. Reviewers should monitor participants' implementation of corrective actions required as a result of the review [682.410(c)(2)]. Regulations permit other actions including requiring a lender to repay interest and special allowance on a loan which violates Subpart C - Federal Payments of Interest and Special Allowance [682.413]. Guarantee agencies must determine the right of the lender to receive or retain payments made by ED for interest benefits and special allowance [682.414(c)(2)].

Interest Billing Adjustments

Adjustments to interest bills may be made on the adjustment section of the ED 799 or Addenda, or on an accompanying worksheet. In the interest of more timely return of monies owed to ED, the Department may issue instructions prescribing additional repayment procedures. Notify the appropriate Regional Office to facilitate the return of monies owed.

PART III

Closing the Review

These chapters address the effective closure of the review.

CHAPTER FOURTEEN: THE EXIT INTERVIEW

Elements of The Exit Interview

* Describe the review format and scope of the review.
* Explain findings and recommendations as well as any liability issues.
* Solicit informal responses at this time to be sure there is no misunderstanding on the part of the reviewer or the lender.
* Advise the lender that a written report will follow and when the report can be expected.
* The lender is required to respond in writing to the review report. Advise the lender of the date by which it should respond.
* Advise the lender that an extension may be granted if the school is not able to comply within the established time period. A request for an extension must be written and must state the reason(s) the lender cannot comply.

CHAPTER FIFTEEN: THE WRITTEN REPORT

Report All Findings

A clearly written report enhances the effectiveness of the program review and assists in a prompt closure to the review. The reviewer is required to determine and report on whether the lender has internal control systems to provide reasonable assurance that it is managing its Part B loan programs in compliance with applicable law and regulation. All instances of noncompliance must be reported as findings.

Cover Letter

A cover letter should accompany the report which, at the minimum, does the following:

- Addresses the Chief Executive Officer (copy to the Student Loan Officer);
- States the purpose and scope of the review;
- Cites dates of the review;
- Cites dates for response;
- Refers to attached report;
- Thanks lender for cooperation;
- Provides name and phone number of Guarantee Agency contact; and
- Includes Part B Loan Programs (GSL) I.D. code number in the cover letter.

Procedures for The Written Report

The recommended format for this report follows.

* The report should have a cover page which lists the following items: lender name, telephone number, reviewer(s) dates of review, lender officials contacted, sample size and time period reviewed;
* The report should describe the **scope of the review**, and should include a **disclaimer** citing any limitations of the review.

Scope and Disclaimer

Describe Each Finding

Each finding should:

- describe the problem that resulted in non compliance;
- state the number of occurrences of each type of non-compliance;
- identify each occurrence by borrower name, SSN, account number, etc., and,
- indicate the liability amount of each occurrence (if known).

Each finding should be addressed **separately** under the headings:

- Finding;
- Citation; and
- Required or Recommended Action -- Use "Recommended Action" only if there is no regulatory or statutory citation.

Response Deadline

The conclusion of the report should clearly specify **deadlines** for the lender to comply with the required actions and for the lender to respond in writing to the report.

Coordination With ED

The guarantee agency should send two copies of the required report, with a transmittal letter, to the Lender and State Agency Review Branch (LSARB) of the division of Audit and Program review (DAPR). Send the report and transmittal letter to :

Coordination With Ed (cont'd)

Lender and State Agency Review Branch
Division of Audit and Program Review, OSFA
U.S. Department of Education
ROB-3, room 3717-Mail Stop 5354
400 Maryland Avenue, S.W.
Washington, D.C. 20202-5354

The transmittal letter should clearly state the number and amounts of any liability checks mailed with the reviews. The guarantee agency may want to use a separate transmittal letter or a form when forwarding liability checks, and mail the reviews and checks separately.

Transmittal letters with liability checks enclosed should be forwarded to:

Lender and State Agency Review Branch
Division of Audit and Program Review, OSFA
U.S. department of Education
P.O. Box 23800
L'Enfant Plaza Station
Washington, D.C. 20026

For additional information on closing a review, refer to "Dear Guarantee Agency Director" letter of September 21, 1988, [88-G-149].

CHAPTER SIXTEEN: STEPS FOR CLOSING THE REVIEW

Elements of Review Closure

Upon receipt of the lender's response to the review report, the guarantee agency must resolve each finding identified in the report in order to close the review.

1. Set up a procedure to track applicable compliance deadlines.

2. Review the lender's written report to determine that it addresses all findings and describes the implementation of required actions.

3. Establish a procedure to monitor the lender's implementation of corrective actions required by the agency as a result of the review [682.410(c)(2)].

Report Closeout Procedures

Corrective Action Requires No liability Payment:

- Determine that corrective action was or will be appropriately implemented.
- If all findings are resolved, notify the lender of review closure.
- Send notification of review closure to DAPR in Washington.

Corrective Action Requires Payment of Liability [See Bulletin 88-G-149, dated 9/21/88]:

- Send demand letter with payment instructions.
- Total liabilities less than $50.00 need not be assessed.

Report Closeout Procedures (cont'd)

- o Agency forwards liability payments to DAPR.
- o Advise the lender to make the appropriate adjustments on the next ED 799 submission.
- o If a lender wishes to pay by check, the check should be made payable to the U.S. Department of Education and forwarded to DAPR in Washington. The following information should accompany checks:
  - Lender ID number;
  - Program review control number; and
  - Quarters and line items being adjusted.

Referrals to ED Regional Offices

Occasionally, an agency's vigorous efforts to close a review will be unsuccessful because the lender is uncooperative in taking the required corrective action. It may be necessary to refer those cases to the appropriate regional office for follow-up. In those instances the agency should do the following:

- o Send the lender three forceful notices, one every 30 days, which seeks compliance with the specific corrective actions required by the review.
- o Forward the agency's recommendation for follow-up action to the appropriate regional office's Guaranteed Student Loan Branch. The agency's referral should include:
  - A chronology of events relating to the dispute;
  - A summary of the issue(s) in dispute; and,
  - All correspondence relating to the review.

The regional office will review the agency's recommendation. When the regional office agrees with the recommendation, it will contact the lender and take the appropriate action to close the review. If the regional office needs additional information or disagrees with the recommendation, it will discuss the issue with the agency before contacting the lender.

APPENDICES

A. (1): Office of Student Financial Assistance, Regional Guaranteed Student Loan Branches, Contacts for Part B Loan Program Reviews

(2): Office of Student Financial Assistance, Regional Institutional Branch, Contacts for Part B Loan Program Reviews

B. List of Offices of Inspector General for Audit and States Served

C. List of Offices of Inspector General for Investigation and States Served

D. (1)"Special Fraud Alert" Pamphlet Published by OIG/ Investigation

(2) Lender Indicators of Fraud and Abuse

E. Part B Loan Programs Reference Citations -- Laws and Regulations

F. Interest Rate and Formula Changes

G. Special Allowance Rates

H. Stafford Check Reconciliation Worksheet

I. Lender's Request For Interest and Special Allowance: Worksheet

J. Reviewer's Checklist

APPENDIX A (1):

Office of Student Financial Assistance, Regional Guaranteed Student Loan Branches, Contacts for Part B Loan Program Reviews

REGIONS	STATES SERVED
I Guaranteed Student Loan Branch Student Financial Assistance Programs J.W. McCormack, Post Office and Courthouse Building 5 Post Office Square, Room 510 Mail Stop 01-0070 Boston, MA 02109 (617) 223-9333	Connecticut, Maine Massachusetts, New Hampshire, Rhode Island, Vermont
II Guaranteed Student Loan Branch Student Financial Assistance Programs 26 Federal Plaza, Room 3954 Mail Stop 02-1081 New York, NY 10278 (212) 264-8143	New Jersey, New York Puerto Rico, Virgin Island (PLUS: Lender/ Guaranteed Agency Review for District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, West Virginia)
IV Guaranteed Student Loan Branch Student Financial Assistance Programs P.O. Box 1692 Atlanta, GA 30301 (404) 331-0526	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
V Guaranteed Student Loan Branch Student Financial Assistance Programs 401 South State Street Room 700-D, Mail Stop 05-4080 Chicago, IL 60605 (312) 353-0377	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Guaranteed Student Loan Branch Student Financial Assistance Programs 1200 Main Tower Bldg., Room 2150 Mail Stop 06-5080 Dallas, TX 75202 (214) 767-3811	Arkansas, Louisiana, New Mexico, Oklahoma, Texas (PLUS: Lender\ Guarantee Agency Review for Iowa, Kansas, Missouri, Nebraska)

IX Guaranteed Student Loan Branch
Student Financial Assistance Programs
50 United Nations Plaza
Room 250, Mail Stop 09-8080
San Francisco, CA 94102-4987
(415) 556-1630

Arizona, California, Hawaii, Nevada, American Samoa, Guam, Trust Territory of the Pacific Islands (PLUS: Lender/ Guarantee Agency Review for Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming, and Alaska, Idaho, Oregon, Washington)

Appendix A (2):

Office of Student Financial Assistance, Regional Institutional Review Branch, Contacts for Part B Loan Program Reviews

REGIONS		STATES SERVED
I	Institutional Review Branch Student Financial Assistance Programs J.W. McCormack Post Office and Courthouse Building, Mail Stop 01-0070 5 Post Office Square, Room 510 Boston, MA 02109 (617) 223-9338	Connecticut, Maine Massachusetts, New Hampshire, Rhode Island, Vermont
II	Institutional Review Branch Student Financial Assistance Programs 26 Federal Plaza, RM 3954 Mail Stop 02-1081 New York, NY 10278 (212) 264-4046	New Jersey, New York Puerto Rico, Virgin Islands
III	Institutional Review Branch Student Financial Assistance Programs 3535 Market Street, Room 16200 Mail Stop 03-2080 Philadelphia, PA 19104 (215) 596-1018	Delaware, District of Columbia, Maryland Pennsylvania, Virginia West Virginia
IV	Institutional Review Branch Student Financial Assistance Programs P.O. Box 1692 Atlanta, Georgia 30301 (404) 331-0556	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
V	Institutional Review Branch Student Financial Assistance Programs 401 South State Street, RM 700-D Mail Stop 05-4080 Chicago, IL, 60605 (312) 353-0375	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI	Institutional Review Branch Student Financial Assistance Programs 1200 Main Tower, RM 2150 Mail Stop 06-5080 Dallas, Texas 75202 (214) 767-3811	Arkansas, Louisiana, New Mexico, Oklahoma, Texas

VII	Institutional Review Branch Student Financial Assistance Programs P.O. Box 901381 Kansas City, Missouri 64190-1381 (816) 891-8055	Iowa, Kansas, Missouri, Nebraska
VIII	Institutional Review Branch Student Financial Assistance Programs 1961 Stout Street, 3rd Floor Mail Stop 08-7080 Denver, CO 80294 (303) 844-4128	Colorado, Montana, North Dakota, South Dakota, Utah Wyoming
IX	Institutional Review Branch Student Financial Assistance Programs 50 United Nations Plaza, RM 227 Mail Stop 09-8080 San Francisco, CA 94102-4987 (415) 556-5689	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Federated States of Micronesia, Palau, Marshall Islands, and the Commonwealth of the Northern Marianas
X	Institutional Review Branch Student Financial Assistance Programs 915 Second Ave, RM 3388, MC 10-9081 Seattle, WA 98174-1099 (206) 442-0434	Alaska, Idaho, Oregon, Washington

APPENDIX B:

Regional Inspectors General for Audit

REGIONS	STATES SERVED
II Regional IG for Investigation Department of Education 26 Federal Plaza, Room 3739 New York, NY 10278 (212) 264-4104	New Jersey, New York Puerto Rico, Virgin, Islands PLUS: OIG for Connecticut, Maine, Vermont, Massachusetts, New Hampshire, Rhode Island
III Regional IG for Investigation Department of Education P.O. Box 13716 Philadelphia, PA 19101 (215) 569-1021	District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, West Virginia
IV Regional IG for Investigation Department of Education P.O. Box 1598 Atlanta, GA 30301 (404) 221-5862	Alabama, Florida, Georgia, Kentucky, Mississippi, Tennessee, North Carolina, South Carolina,
V Regional IG for Investigation Department of Education 300 South Wacker Drive, RM 1302 Chicago, IL 60606 (312) 886-6503	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Regional IG for Investigation Department of Education 1200 Main Tower Bldg., Room 2130 Dallas, TX 75202 (214) 767-3828	Arkansas, Louisiana, New Mexico, Oklahoma, Texas,
VII Regional IG for Investigation Department of Education 10220 N. Executive Hill, Kansas City, MO 64153 (816) 891-7981	Iowa, Kansas, Missouri, Nebraska, PLUS: OIG for Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming
IX Regional IG for Investigation Department of Education 50 United Nations Plaza Room 105 San Francisco, CA 94102 (415) 556-2711	Arizona, California, Hawaii, Nevada, PLUS OIG for Alaska, Idaho, Oregon, Washington

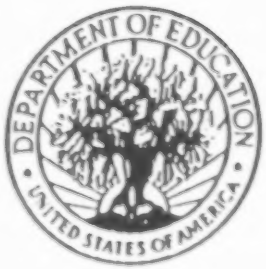
APPENDIX C:

Office of Inspector General for Investigation

REGIONS	STATES SERVED
II Regional IG for Investigation Department of Education 26 Federal Plaza, Room 3739 New York, NY 10278 (212) 264-4104	New Jersey, New YorK Puerto Rico, Virgin, Islands PLUS: OIG for Connecticut, Maine, Vermont, Massachusetts, New Hampshire, Rhode Island
III Regional IG for Investigation Department of Education P.O. Box 13716 Philadelphia, PA 19101 (215) 569-1021	District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, West Virginia
IV Regional IG for Investigation Department of Education P.O. Box 1598 Atlanta, GA 30301 (404) 221-5862	Alabama, Florida, Georgia, Kentucky, Mississippi, Tennessee, North Carolina, South Carolina,
V Regional IG for Investigation Department of Education 300 South Wacker Drive, RM 1302 Chicago, IL 60606 (312) 886-6503	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Regional IG for Investigation Department of Education 1200 Main Tower Bldg., Room 2130 Dallas, TX 75202 (214) 767-3828	Arkansas, Louisiana, New Mexico, Oklahoma, Texas,
VII Regional IG for Investigation Department of Education 10220 N. Executive Hill, Kansas City, MO 64153 891 7981	Iowa, Kansas, Missouri, Nebraska, PLUS: OIG for Colorado, Montana, North Dakota, South (816) Dakota, Utah, Wyoming
IX Regional IG for Investigation Department of Education 50 United Nations Plaza, Room 105 Francisco, CA 94102 (415) 556-2711	Arizona, California, Hawaii, Nevada, PLUS: OIG for Alaska, Idaho, Oregon, Washington

SPECIAL FRAUD ALERT

for Schools, Lenders, and Guarantee Agencies



How you can help check fraud & abuse in the government's student aid programs

Office of Inspector General
and
Office of Postsecondary Education

The vast majority of student aid applicants are responsible individuals who complete their application forms honestly and accurately to the best of their ability. Student aid fraud is nonetheless a very real problem, and one of increasing importance to the education community; for every dollar in student aid fraudulently obtained is a dollar denied to those for whom it is intended. It is thus in the interest of all of us—students, schools, lenders, guarantee agencies and the Department of Education—to prevent misuse of student aid, and to help ensure that U.S. taxpayer dollars—OUR dollars—go to assist those who are legally entitled to them, and who will use the money to further their education.

WHAT IS STUDENT AID FRAUD? Student aid fraud is the intentional wrongful obtaining of student financial assistance (SFA) benefits through deceptive means.

CAN YOU BE MORE SPECIFIC? Let's take eligibility. The Department of Education's SFA program funds are available only to eligible students as defined by law or regulation. In general, to qualify as eligible, a student must:

- be enrolled at least half time in an eligible program of study;
- carry a sufficient and appropriate academic workload and be making satisfactory progress as defined by the institution;
- be a U.S. citizen or a non-citizen who has been lawfully admitted for permanent residence;
- demonstrate financial need (except for PLUS loans) as defined by applicable program regulations;
- sign a statement of educational purpose;
- have registered with the Selective Service if required to do so; and
- not be in default on a Federal student loan or owe a refund on a Federal grant at any institution of higher education.

Falsification of eligibility is the most common form of SFA fraud. The Department's Office of Inspector General (OIG) has investigated a number of cases involving individuals who falsified either eligibility or other items on student aid applications (and/or related documents) in order to obtain financial assistance to which they would otherwise not be entitled. Some of the methods used by these individuals include:

- false claims of independent student status;
- false claims of citizenship;

APPENDIX D (1):

- use of false identities (i.e., false names and/or Social Security numbers); and
- forgery of official signatures or certifications.

CAN YOU GIVE ME AN EXAMPLE? Here's one case where a school official's alertness and quick action helped uncover an elaborate scheme to bilk the government out of more than $40,000 in student aid funds:

- The suspicions of a college financial aid specialist who noted similar handwriting on five applications led to the arrest and conviction of an ineligible alien who used forged identification cards to apply for over $42,000 in student financial assistance. The alien, a cab driver who admitted using 15 different aliases to apply for and receive 30 Pell Grants and Guaranteed Student Loans, was apprehended while attempting to claim a check at the bursar's office. He pleaded guilty to charges of theft, was sentenced to four years in prison and was ordered to repay $27,749 in fraudulently obtained funds—the total amount he actually received before his arrest—to the Department of Education.

WHAT CAN I DO? The following checklist has been developed to assist you in spotting potential fraud in the SFA application process. While in the vast majority of cases, the appearance of any one of these factors can be attributed to simple error or otherwise reasonably explained, anyone handling SFA applications should be aware of them, and should alert the proper authorities if patterns are discerned or serious questions arise.

INDICATORS	EXAMPLES	POTENTIAL SIGNIFICANCE
✓ Obvious or apparent forgery.	Inconsistency/irregularity of official signatures, certifications, or authorizations.	May signify attempt to avoid detection of ineligibility.
✓ Noticeable erasures or corrections on application or check, particularly in items that should be well known to applicant.	Name, Social Security number, address.	May denote falsification of entry.
✓ Identical entries of ostensibly unique items on several applications.	Addresses, references, telephone numbers, handwriting.	May signal attempt to obtain multiple grants or loans under different (false) identities.
✓ Obviously incorrect information.	Nonexistent street addresses.	May signify attempt to fraudulently obtain multiple grants or loans by concealing information that would betray common source of applications.
✓ Non-residential or temporary addresses.	Post office box addresses, "in care of" addresses.	
✓ Discrepancies between application information and identification documents.	Driver's license, student ID card, birth certificate.	May denote intentional falsification of information that would reveal applicant ineligibility.
✓ Request by applicant to hand-carry application to financial institutions.	Convenience frequently cited.	May denote intention to tamper with application form or other documents.
✓ Undue delay in applicant's submission of documentation.	Application forms, identification documents, financial information.	May signify need for time to falsify information.
✓ Request by applicant to "rush" application process.	Financial hardship frequently cited.	May signal intention to abscond quickly with funds and elude pursuit.

Here are some additional steps you can take to help minimize fraud and abuse of student aid funds.

- **Examine all checks to verify proper endorsement.**
- **Record on back of checks the type and identification numbers of documents used for check cashing purposes.**
- **Photograph persons cashing loan checks.**
- **As now required by law, send loan fund checks to the school, not to the borrower, and, if for an amount of $1,000 or more and for a period of enrollment exceeding one semester, in multiple disbursements.**

And remember: Any instances of suspected fraud should be referred to the appropriate State or local agency with investigative jurisdiction or to the Department of Education, Office of Inspector General. The OIG's toll-free Hotline number is 1-800 MIS USED.

Help us to ensure the integrity of student aid.

HELP PREVENT STUDENT AID FRAUD!

APPENDIX D (2):

Lender Indicators of Fraud and Abuse

The following list contain indicators of potential fraud and abuse.

1. Complaints received from the guarantee agency regarding a lender indicating potential fraud.

2. Guarantee agency bills and receives payment for interest and special allowance and then the lender also directly bills and is paid for the same interest and special allowance.

3. Consistent tolerance errors in the lender billings for interest and special allowance.

4. Large fluctuations in the portfolio levels of the lender as reported in their interest and special allowance billings.

5. Billing under more than one lender I.D. (i.e., having more than one account and billing for the same portfolio under both I.D.'s).

6. Origination fees not being timely transmitted to ED/OPE: or the lender not reporting origination fees.

7. Large number of adjustments to interest and special allowance billings (e.g., overbill one quarterly period, and offset against the next quarterly period, while earning interest on the funds.

8. Lender computer system designed to update increases to portfolio balances as they occur, but does not update decreases to portfolio balances in a timely manner; thus the lender earns more interest and special allowance.

APPENDIX E:

Part B Loan Programs Reference Citations: Laws and Regulations

* The authorizing legislation governing the Part B Loan Programs has been amended numerous times since original enactment on October 22, 1965 and November 8, 1965. The current statutory citation is "Title IV, Part B of the Higher Education Act of 1965, as amended (20 U.S.C. 1071 et seq)

* The same is true of the regulations. When the program was administered by the Department of Health, Education and Welfare, the regulations were found in 45 CFR 177. Since the Department of Education was established in 1980, the regulations are found in 34 CFR 682 for the Part B Loan Programs and 34 CFR 668 for the General Provisions regulations.

* Part B Loan Program Bulletins covering current regulation changes and applicable interpretations -- published by the Office of Student Financial Assistance

* Federal Student Financial Aid Handbook -- Stafford/PLUS/SLS Section -- published by the Office of Student Financial Assistance.

* Contact the Division of Training and Dissemination in Washington, D.C. for publications needed to update the Guarantee Agency Library or call their toll free information number, 800-333-INFO.

APPENDIX F:

INTEREST RATE AND FORMULA CHANGES

Interest Rate Changes:

* **7%** --Stafford loans disbursed prior to 1981

* **9%** --Stafford (& PLUS) loans for new borrowers disbursed on or after January 1, 1981

* **14%**--PLUS loans disbursed on or after October 1, 1981

* **12%**--PLUS loans disbursed on or after November 1, 1982

* **8%** --Stafford loans for periods of enrollment on or after September 13, 1983

* **8%/10%**-Stafford loans for new borrowers for periods of enrollment on or after July 1, 1988.

* **VIR**--Variable interest rate for SLS/PLUS loans refinanced after January 1, 1987 or disbursed on or after July 1, 1987.

Special Allowance Formula

* **Prior to October 1, 1981** -- Average of 91 day T-Bill, minus 3.5%, and rounded up to nearest 1/8%

* **October 1, 1981 to February 28, 1986** -- Average of 91 day T-Bill, minus applicable interest rate, plus 3.5%

* **March 1, 1986 to September 30, 1986** -- Average of 91 day T-Bill, minus applicable interest rate, plus 3.1% (Gramm-Rudman sequester order)

* **November 16, 1986 to present** -- Average of 91 day T-Bill, minus applicable interest rate, plus 3.25% (for loans disbursed where priod of enrollment begins on or after November 16, 1986)

APPENDIX G:
SPECIAL ALLOWANCE RATES

QUARTER ENDING:	March 31		June 30		September 30		December 31	
YEAR:	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR
1969	----------	----------	----------	----------	2%	.003333	2-1/4%	.005625
1970	2%	.005	2-1/4%	.005625	2%	.005	1-1/2%	.00375
1971	1%	.0025	1-1/4%	.003125	1-1/4%	.003125	3/4%	.001875
1972	3/4%	.001875	3/4%	.001875	3/4%	.001875	3/4%	.001875
1973	1%	.0025	1-3/4%	.004375	2-1/2%	.00625	2-1/2%	.00625
1974	2-1/4%	.005625	3%	.0075	3%	.0075	3%	.0075
1975	2-1/4	.005625	1-1/2%	.00375	2-1/4%	.005625	1-7/8%	.004688
1976	1-1/4%	.003125	1-1/2%	.00375	1-7/8%	.004688	1-1/2%	.00375
1977	1-1/4%	.003125	1-1/2%	.00375	2-1/4%	.005625	2-7/8%	.007188
1978	3-1/8%	.007812	3-1/4%	.008125	4-1/8%	.010312	5-5/8%	.014062
1979	6-1/4%	.015625	4%	.01	6-5/8%	.016562	9%	.0225
1980	10-7/8%	.027188	6-3/8%	.015938	6-3/8%	.015938	11%	.0275
1981								
(A) (7%)	11-5/8%	.029062	12-1/4%	.030625	12-1/2%	.03125	9%	.0225
(A) (9%)	9-5/8%	.024062	10-1/4%	.025625	10-1/2%	.02625	7%	.0175
(B) (7%)							8.92%	.0223
(B) (9%)							6.92%	.0173
(B) (14%)							1.92%	.0048
1982								
(A) (7%)	10.125%	.0253125	9.5%	.02375	6.375%	.0159375	4.75%	.011875
(A) (9%)	8.125%	.0203125	7.5%	.01875	4.375%	.0109375	2.75%	.006875
(B) (7%)	10.06%	.02515	9.46%	.02365	6.36%	.0159	4.72%	.0118
(B) (9%)	8.06%	.02015	7.46%	.01865	4.36%	.0109	2.72%	.0068
(B) (12%)							0.00%	.0000
(B) (14%)	3.06%	.00765	2.46%	.00615	0.00%	.0000	0.00%	.0000
1983								
(A) (7%)	5.00%	.0125	5.375%	.0134375	6.125%	.0153125	5.75%	.014375
(A) (9%)	3.00%	.0075	3.375%	.0084375	4.125%	.0103125	3.75%	.009375
(B) (7%)	4.89%	.012225	5.28%	.0132	6.05%	.015125	5.66%	.01415
(B) (8%)					5.05%	.012625	4.66%	.01165
(B) (9%)	2.89%	.007225	3.28%	.0082	4.05%	.010125	3.66%	.00915
(B) (12%)	0.00%	.0000	0.28%	.0007	1.05%	.002625	0.66%	.00165
(B) (14%)	0.00%	.0000	0.00%	.0000	0.00%	.0000	0.00%	.0000

(A) - Special Allowance rates for loans made prior to 10/1/81

(B) - Special Allowance rates for loans made on or after 10/1/81
NOTE: Rates for tax-exempt loans are not given;
see §438(b) of the Act.

QUARTER ENDING:		March 31		June 30		September 30		December 31	
YEAR:		ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR
1984									
(A)	(7%)	6.125%	.0153125	6.75%	.016875	7.375%	.0184375	5.75%	.014375
	(9%)	4.125%	.0103125	4.75%	.011875	5.375%	.0134375	3.75%	.009375
(B)	(7%)	6.02%	.01505	6.74%	.01685	7.28%	.0132	5.71%	.014275
	(8%)	5.02%	.01255	5.74%	.01435	6.23%	.0157	4.71%	.011775
	(9%)	4.02%	.01005	4.74%	.01185	5.23%	.0132	3.71%	.009275
	(12%)	1.02%	.00255	1.74%	.00435	2.28%	.0057	0.71%	.001775
	(14%)	0.00%	.0000	0.00%	.0000	0.28%	.0007	0.00%	.0000
1985									
(A)	(7%)	5.00%	.0125	4.375%	.0109375	3.875	.0096875	4.00%	.01
	(9%)	3.00%	.0075	2.375%	.0059375	1.875	.0046875	2.00%	.005
(B)	(7%)	4.96%	.0124	4.28%	.0107	3.84%	.0096	3.88%	.0097
	(8%)	3.96%	.0099	3.28%	.0082	2.84%	.0071	2.88%	.0072
	(9%)	2.96%	.0074	2.28%	.0057	1.84%	.0046	1.88%	.0047
	(12%)	0.00%	.0000	0.00%	.0000	0.00%	.0000	0.00%	.0000
	(14%)	0.00%	.0000	0.00%	.0000	0.00%	.0000	0.00%	.0000
1986									
(A)	(7%)	3.625%	.0090625	2.875%	.0071875	2.25%	.005625	**See Page 3.**	
	(9%)	1.625%	.0040625	0.875%	.0021875	0.25%	.000625		
(B)	(7%)	3.56%	.0089	2.78%	.00695	2.15%	.005375		
	(8%)	2.56%	.0064	1.78%	.00445	1.15%	.002875		
	(9%)	1.56%	.0039	0.78%	.00195	0.15%	.000375		
	(12%)	0.00%	.0000	0.00%	.0000	0.00%	.0000		
	(14%)	0.00%	.0000	0.00%	.0000	0.00%	.0000		
(C)	(7%)	3.16%	.0079	2.38%	.00595	1.75%	.004375		
	(8%)	2.16%	.0054	1.38%	.00345	0.75%	.001875		
	(9%)	1.16	.0029	0.38%	.00095	0.00%	.0000		
	(12%)	0.00%	.0000	0.00%	.0000	0.00%	.0000		
1987									
(A)	(7%)	**See Page 3.**		**See Page 3.**		**See Page 3.**		**See Page 3.**	
	(9%)								
(B)	(7%)								
	(8%)								
	(9%)								
	(12%)								
	(14%)								
(C)	(7%)								
	(8%)								
	(9%)								
	(12%)								

(A) - Rates for loans made prior to 10/1/81.

(B) - Rates for loans made on or after 10/1/81 and not subject to Pub. L. 99-177.

(C) - Rates for loans made on or after 10/1/81 and subject to Pub. L. 99-177.
NOTE: Rates for tax-exempt loans are not given; see §438(b) of the Act.

QUARTER ENDING:	March 31		June 30		September 30		December 31	
YEAR: 1986	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR	ANNUAL RATE	QUARTERLY FACTOR
A (7%)	**See Page 2.**		**See Page 2.**		**See Page 2.**		2.125% *	.0053125 *
A (9%)							0.125% *	.0003125 *
B (7%)							2.01% *	.005025 *
B (8%)							1.01% *	.002525 *
B (9%)							0.01% *	.000025 *
B (12%)							0.00%	.0000
B (14%)							0.00%	.0000
C (7%)							1.61% *	.004025 *
C (8%)							0.61% *	.001525 *
C (9%)							0.00% *	.0000 *
C (12%)							0.00%	.0000
D (7%)							1.76%	.0044
D (8%)							0.76%	.0019
D (9%)							0.00%	.0000
D (10%)							0.00%	.0000
D (11%)							0.00%	.0000
D (12%)							0.00%	.0000
D (13%)							0.00%	.0000
D (14%)							0.00%	.0000
1987								
A (7%)	2.25% *	.005625 *	2.5% *	.00625 *	%		%	
A (9%)	0.25% *	.000625 *	0.5% *	.00125 *	2.875	.0071875	2.75	.006875
					.875	.0021875	.75	.001875
B (7%)	2.19% *	.005475 *	2.42% *	.00605 *				
B (8%)	1.19% *	.002975 *	1.42% *	.00355 *	2.77	.006925	2.67	.006675
B (9%)	0.19% *	.000475 *	0.42% *	.00105 *	1.77	.004425	1.67	.004175
B (12%)	0.00%	.0000	0.00%	.0000	.77	.001925	.67	.001675
B (14%)	0.00%	.0000	0.00%	.0000	0	0	0	0
					0	0	0	0
C (7%)	1.79% *	.004475 *	2.02% *	.00505 *				
C (8%)	0.79% *	.001975 *	1.02% *	.00255 *	N/A	N/A	N/A	N/A
C (9%)	0.00% *	.0000 *	0.02% *	.00005 *	N/A	N/A	N/A	N/A
C (12%)	0.00%	.0000	0.00%	.0000	N/A	N/A	N/A	N/A
					N/A	N/A	N/A	N/A
D (7%)	1.94%	.00485	2.17%	.005425				
D (8%)	0.94%	.00235	1.17%	.002925	2.52	.0063	2.42	.00605
D (9%)	0.00%	.0000	0.17%	.000425	1.52	.0038	1.42	.00355
D (10%)	0.00%	.0000	0.00%	.0000	.52	.0013	.42	.00105
D (11%)	0.00%	.0000	0.00%	.0000	0	0	0	0
D (12%)	0.00%	.0000	0.00%	.0000	0	0	0	0
D (13%)	0.00%	.0000	0.00%	.0000	0	0	0	0
D (14%)	0.00%	.0000	0.00%	.0000	0	0	0	0
					0	0	0	0

NOTE: See "Attachment" for explanation of special allowance categories A, B, C and D.

NOTE: Special Allowance rates for loans made/purchased with tax-exempt funds are one-half the rates specified in A, B or C, except as noted by an asterisk (*). The annual rate is not less than 2.5% (7% loans), 1.5% (8% loans), and .5% (9% loans).

YEAR	MARCH 31 Annual Rate	MARCH 31 Qtrly Factor	JUNE 30 Annual Rate	JUNE 30 Qtrly Factor	SEPTEMBER 30 Annual Rate	SEPTEMBER 30 Qtrly Factor	DECEMBER 31 Annual Rate	DECEMBER 31 Qtrly Factor
1988	%		%		%		%	
A (7%)	2.5	.00625	3.0	.0075	3.75	.009375	4.5	.01125
(9%)	.5	.00125	1.0	.0025	1.75	.004375	2.5	.00625
B (7%)	2.43	.006075	2.94	.00735	3.74	.00935	4.49	.011225
(8%)	1.43	.003575	1.94	.00485	2.74	.00685	3.49	.008725
(9%)	.43	.001075	.94	.00235	1.74	.00435	2.49	.006225
(12%)	0	0	0	0	0	0	0	0
(14%)	0	0	0	0	0	0	0	0
D (7%)	2.18	.00545	2.69	.006725	3.49	.008725	4.24	.0106
(8%)	1.18	.00295	1.69	.004225	2.49	.006225	3.24	.0081
(9%)	.18	.00045	.69	.001725	1.49	.003725	2.24	.0056
(10%)	0	0	0	0	.49	.001225	1.24	.0031
(11%)	0	0	0	0	0	0	.24	.0006
(12%)	0	0	0	0	0	0	0	0
(13%)	0	0	0	0	0	0	0	0
(14%)	0	0	0	0	0	0	0	0

A - S/A rates for loans made prior to 10/01/81
B - S/A rates for loans made from 10/01/81 through 11/15/86
C - S/A rates for loans subject to sequester order (3/01/86-9/30/86)
D - S/A rates for loans made for periods of enrollment beginning on or after 11/16/86

SPECIAL ALLOWANCE RATES - Attachment

(A) o GSLP, PLUS, or Consolidation loans made prior to 10/1/81.

Special Allowance Formula:
1. Average bond equivalent rate of the 91-day Treasury bills ("Average T-bill");
2. Less the applicable interest rate;
3. Plus 3.5%;
4. Rounded up to the nearest one-eighth of 1% = "Special Allowance at Annual Rate:"
5. Divided by 4 = "Special Allowance for 3-month Period."

(B) o GSLP, PLUS & SLS loans made on or after 10/1/81, but prior to 11/16/86, for periods of enrollment beginning prior to 11/16/86.
o Consolidation loans made on or after 10/1/81, but prior to 11/16/86.
o Certain taxable obligations of SC and ME.
o All tax-exempt loans made on or after 10/1/81 (regardless of the period of enrollment).

Special Allowance Formula:
1. Average T-bill rate:
2. Less the applicable interest rate:
3. Plus 3.5% = "Special Allowance at Annual Rate:"
4. Divided by 4 = "Special Allowance for 3-month Period."

(C) o Same loans as (B), above, but subject to Pub. L. 99-177 (Gramm-Rudman-Hollings Act, or the Balanced Budget and Emergency Deficit Control Act of 1985). This rate applies to the first four special allowance payments on loans made on or after March 1, 1986 and before October 1, 1986. Unless a new sequestration order is issued, the last quarter to which the sequestration order of February 4, 1986, applies is the June 30, 1987 quarter.

Special Allowance Formula:
1. Average T-bill rate:
2. Less the applicable interest rate:
3. Plus 3.1% = "Special Allowance at Annual Rate:"
4. Divided by 4 = "Special Allowance for 3-month Period."

(D) o GSLP loans made on or after 11/16/86, or made for periods of enrollment beginning on or after 11/16/86.
o Fixed-rate PLUS and SLS loans made on or after 11/16/86, or made for periods of enrollment beginning on or after 11/16/86, but prior to 7/1/86.
o Consolidation loans made on or after 11/16/86.

Special Allowance Formula:
1. Average T-bill rate:
2. Less the applicable interest rate:
3. Plus 3.25% = "Special Allowance at Annual Rate:"
4. Divided by 4 = "Special Allowance for 3-month Period."

APPENDIX H:
PART B LOAN PROGRAMS CHECK RECONCILIATION WORKSHEET

Section One:

Total Interest Due _____
Interest Adjustment _____

Section Two:

(%)	Average Principal Balance	X	Quarterly Factor	=	Payment
___	_____		_____		_____
___	_____		_____		_____
___	_____		_____		_____
___	_____		_____		_____
___	_____		_____		_____
___	_____		_____		_____
___	_____		_____		_____

Section Four:

___	_____	_____	_____
___	_____	_____	_____
___	_____	_____	_____
___	_____	_____	_____

Section Five:

___	_____	_____	_____
___	_____	_____	_____
___	_____	_____	_____
___	_____	_____	_____
___	_____	_____	_____

Total Special Allowance Payment _____
Special Allowance Adjustment _____
Special Allowance Adjustment _____

Less, Section III Origination Fee _____
Less, Section IV Origination Fee _____

Total Amount Billed _____
ED Payment Received _____

Difference _____

APPENDIX I

LENDER'S REQUEST FOR INTEREST AND SPECIAL ALLOWANCE--WORKSHEET

Average Quarterly Method / Quarter Ending _____/_____/_____

SECTION I - INTEREST SUBSIDIZED STUDENT LOANS ONLY			(corresponding line on ED Form 799)
A1 - FULL SUBSIDY 9%			
1. Ending Principal Balance This Quarter			
2. Less, Matured Loans Not Converted To Repayment, Hardship or in Forbearance.	-		
3. Total, Eligible Loans This Quarter			(A1-6)
4. Add, Ending Balance From Previous Quarter	+		
5. Total, Both Quarters			
6. Divide by Two = Average Principal Balance			(A1-7)
7. Multiply X .0225 = Interest Due			(A1-8)
A2 - FULL SUBSIDY 8%			
1. Ending Principal Balance This Quarter			
2. Less, Matured Loans Not Converted to Repayment, Hardship or in Forbearance	-		
3. Total, Eligible Loans This Quarter			(A2-6)
4. Add, Ending Balance From Previous Quarter	+		
5. Total, Both Quarters			
6. Divide by Two = Average Principal Balance			(A2-7)
7. Multiply X .02 = Interest Due			(A2-8)
A3 - FULL SUBSIDY 7%			
1. Ending Principal Balance This Quarter			
2. Less, Matured Loans Not Converted to Repayment, Hardship or in Forbearance	-		
3. Total, Eligible Loans This Quarter			(A3-6)
4. Add, Ending Balance From Previous Quarter	+		
5. Total, Both Quarters			
6. Divide by Two = Average Principal Balance			(A3-7)
7. Multiply X .0175 = Interest Due			(A3-8)

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********** NOTE **********

ALL ELIGIBLE INTERIM STUDENT LOANS (IN SCHOOL, GRACE & DEFERMENT) ARE TO BE INCLUDED IN SECTION I OF ED FORM 799.

ALL OF THE ABOVE LOANS & LOANS IN REPAYMENT & LOANS DELINQUENT LESS THAN 270 DAYS WILL BE INCLUDED IN THE SPECIAL ALLOWANCE SECTIONS II AND V THAT FOLLOW. ANY LOAN FOR A PERIOD OF ENROLLMENT AND/OR DISBURSED PRIOR TO 11/16/86 WILL BE INCLUDED IN SECTION II. LOANS DISBURSED AND/OR FOR PERIODS OF ENROLLMENT BEGINNING ON OR AFTER 11/16/86 WILL BE INCLUDED IN SECTION V.

BE VERY CAREFUL NOT TO BILL ANY LOAN IN MORE THAN ONE SPECIAL ALLOWANCE SECTION !!!

********** NOTE **********

SECTION II - SPECIAL ALLOWANCE - For loans disbursed and/or for periods of enrollment prior to 11/16/86. (All loans to be considered made 10/01/81 and after)

(corresponding line on ED Form 799)

Line 3 - SPECIAL ALLOWANCE 14%

1. Ending Principal Balance, 14% PLUS Loans		_____	(Line 3 - Act.Bal.)
2. Less, Loans 270 or More Days Past Due	-	_____	
3. Add, Ending Principal Balance From Previous Quarter	+	_____	
4. Total, Both Quarters		_____	
5. Divide by Two = Average Principal Balance		_____	(Line 3 - Avg.Bal.)

Line 4 - SPECIAL ALLOWANCE 12%

1. Ending Principal Balance, 12% PLUS loans		_____	(Line 4 - Act.Bal.)
2. Less, Loans 270 or More Days Past Due	-	_____	
3. Add, Ending Principal Balance From Previous Quarter	+	_____	
4. Total, Both Quarters		_____	
5. Divide by Two = Average Principal Balance		_____	(Line 4 - Avg.Bal.)

Line 5 - SPECIAL ALLOWANCE 9%

1. Ending Principal Balance, All In-School 9% Loans		_____	
2. Add, Ending Balance 9% Loans in Repayment	+	_____	
3. Less, Unearned Interest (Rule of 78ths)	-	_____	
4. Less, Loans 270 or More Days Past Due	-	_____	(Line 5- Act.Bal.)
5. Total = Actual Principal Balance This Qtr.		_____	
6. Add, Ending Principal Balance From Previous Quarter	+	_____	
7. Total, Both Quarters		_____	
8. Divide by Two = Average Principal Balance		_____	(Line 5- Avg.Bal.)

Line 6 - SPECIAL ALLOWANCE 8%

			(corresponding line on ED Form 799)
1.	Ending Principal Balance, All In-School 8% Loans		
2.	Add, Ending Balance 8% Loans in Repayment	+	
3.	Less, Unearned Interest (Rule of 78ths)	-	
4.	Less, Loans 270 or More Days Past Due	-	
5.	Total = Actual Principal Balance This Qtr.		(Line 6- Act.Bal.)
6.	Add, Ending Principal Balance From Previous Quarter	+	
7.	Total, Both Quarters		
8.	Divide by Two = Average Principal Balance		(Line 6- Avg.Bal.)

Line 7 - SPECIAL ALLOWANCE 7%

1.	Ending Principal Balance, All In-School 7% Loans		
2.	Add, Ending Balance 7% Loans in Repayment	+	
3.	Less, Unearned Interest (Rule of 78ths)	-	
4.	Less, Loans 270 or More Days Past Due	-	
5.	Total = Actual Principal Balance This Qtr.		(Line 7- Act.Bal.)
6.	Add, Ending Principal Balance From Previous Quarter	+	
7.	Total, Both Quarters		
8.	Divide by Two = Average Principal Balance		(Line 7- Avg.Bal.)

SECTION III - ORIGINATION FEES

All student loans disbursed are subject to a 5% origination fee. Be sure that you have an audit trail that shows the total loan amount disbursed , the interest rate and a separate general ledger account for the origination fees. The total amount disbursed for the quarter is put on line 1,Section III. 5% of that amount (which should prove to the G/L account) is put on line 4,Section III.

SECTION V - SPECIAL ALLOWANCE - For loans disbursed and/or for periods of enrollment on or after 11/16/86.

(corresponding line on ED Form 799)

Line 8 - SPECIAL ALLOWANCE 12%

1.	Ending Principal Balance, 12% PLUS Loans		(Line 8 - Act.Bal.)
2.	Less, Loans 270 or More Days Past Due	-	
3.	Add, Ending Principal Balance From Previous Quarter	+	
4.	Total, Both Quarters		
5.	Divide by Two = Average Principal Balance		(Line 8 - Avg.Bal.)

Line 11 - SPECIAL ALLOWANCE 9%

1.	Ending Principal Balance, All in-school 9% loans.		
2.	Add, Ending Balance 9% loans in Repayment.	+	
3.	Less, Unearned Interest (Rule of 78ths)	-	
4.	Less, Loans 270 or More Days Past Due	-	
5.	Total, Actual Principal Balance This Qtr.		(Line 11- Act.Bal.)
6.	Add, Ending Principal Balance From Previous Quarter.	+	
7.	Total, Both Quarters		
8.	Divide by Two = Average Principal Balance		(Line 11- Avg.Bal.)

Line 12 - SPECIAL ALLOWANCE 8%

1.	Ending Principal Balance, All In-School 8% Loans		
2.	Add, Ending Balance 8% Loans in Repayment	+	
3.	Less, Unearned Interest (Rule of 78ths)	-	
4.	Less, Loans 270 or More Days Past Due	-	
5.	Total = Actual Principal Balance This Qtr.		(Line 12- Act.Bal.)
6.	Add, Ending Principal Balance From Previous Quarter	+	
7.	Total, Both Quarters		
8.	Divide by Two = Average Principal Balance		(Line 12- Avg.Bal.)

Line 13 - SPECIAL ALLOWANCE 7%

			(corresponding line on ED Form 799)
1.	Ending Principal Balance, All In-School 7% Loans		
2.	Add, Ending Balance 7% Loans in Repayment	+	
3.	Less, Unearned Interest (Rule of 78ths)	-	
4.	Less, Loans 270 or More Days Past Due	-	
5.	Total = Actual Principal Balance This Qtr.		(Line 13- Act.Bal.)
6.	Add, Ending Principal Balance From Previous Quarter	+	
7.	Total, Both Quarters		
8.	Divide by Two = Average Principal Balance		(Line 13- Avg.Bal.)

******LINES BELOW TO BE USED IF NECESSARY FOR OTHER INTEREST RATES******

Line - SPECIAL ALLOWANCE %

1.	Ending Principal Balance, % Loans		(Line - Act.Bal.)
2.	Less, Loans 270 or More Days Past Due	-	
3.	Add, Ending Principal Balance From Previous Quarter	+	
4.	Total, Both Quarters		
5.	Divide by Two = Average Principal Balance		(Line - Avg.Bal.)

Line - SPECIAL ALLOWANCE %

1.	Ending Principal Balance, % Loans		(Line - Act.Bal.)
2.	Less, Loans 270 or More Days Past Due	-	
3.	Add, Ending Principal Balance From Previous Quarter	+	
4.	Total, Both Quarters		
5.	Divide by Two = Average Principal Balance		(Line - Avg.Bal.)

APPENDIX J:

REVIEWER'S CHECKLIST

The following checklist should be used as a quick reference guide during the review process to ensure that the review is thorough. It may also be used to help the reviewer prepare for the exit interview. Further details covering program requirements are included throughout the Site Guide.

1. Lender delinquency rates and defaults
2. Loan sale documentation
3. Loan origination accounting and reconciliation
4. Reconciliation of quarterly bill ending balances to trial balances or general ledger, by rate and category
5. Servicer reports, if applicable
6. Claims processing procedures and timely filing
7. Handling of student status confirmation reports
8. Responsiveness to borrower inquiries
9. Special relationships with schools (prohibited transactions.)
10. Proper documentation for deferments
11. Forbearance policy
12. Response to previous reviews and audits where applicable